

Message Text

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INFO AMCONSUL DHAHRAN

C O N F I D E N T I A L JIDDA 4979

EXDIS

E.O.: 11652: GDS

STAGS: EFIN, US, SA

SUBJ: GOVERNOR ALI SOMEWHAT NEGATIVE ON TREASURY ISSUES

REF : JIDDA 4939

BEGIN SUMMARY: GOVERNOR ALI HAS CONFIRMED THAT THERE HAS BEEN NO RECENT DISCUSSIONS WITH MINSTATEFINANCE ON SUBJECT OF SPECIAL ISSUES PROPOSED BY TREASURY. PRIVATELY ADVISED ECONCOUNSELOR THAT HE WOULD CONTINUE TO BE CONVINCED THAT CHANNELS ALREADY AVAILABLE TO SAMA WERE ADEQUATE. HE COULD NOT ANTICIPATE WHAT OFFICIAL DECISION WOULD BE, BUT PERSONALLY HE WAS CONVINCED THAT DEPTH OF U.S. MARKET MADE IT INEVITABLE THAT MONEY WOULD CONTINUE TO FLOW THERE REGARDLESS OF DECISION ON SPECIAL ISSUES. ARGUMENT THAT CAPITAL CREDIT CRUNCH BEING CONTRIBUTED TO BY SHORT-TERM DEPOSITS OF OIL PRODUCERS WERE NOT EFFECTIVE WITH HIM. EMBASSY REMAINS CONVINCED THAT DECISION TO PICK UP SPECIAL ISSUE AT ANY MEANINGFUL LEVEL IS DEPENDENT ON POLITICAL FACTORS. END SUMMARY.

1. DURING CALL ON OTHER MATTERS ON GOVERNOR ALI AUGUST 27, ECONCOUNSELOR PRESENTED HIM WITH COPY OF TABLES ON RESERVES OF OIL PRODUCERS FROM ASSISTANT SECRETARY ATHERTON'S RECENT TESTIMONY BEFORE CONGRESS. THIS OPENED SUBJECT OF WHAT WAS HAPPENING TO THOSE SURPLUS FUNDS BEING GENERATED AND GOVERNOR DROPPED FIGURE THAT PRESENT

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SAG HOLDINGS WERE ALREADY ABOVE 11 BILLION DOLLARS.

2. TURNING TO DISPOSAL OF THESE FUNDS, HE SAID THAT HE HAD NOT RAISED SUBJECT OF SPECIAL TREASURY ISSUE WITH MINSTATEFINANCE ABA AL-KHAYL WHEN HE SAW HIM AFTER A LONG ABSENCE OF CONTACT ON AUGUST 26. (WE NOTE MINISTER DID NOT SPECIFICALLY SAY SUBJECT DISCUSSED --REFTEL). ALI COULD NOT ANTICIPATE WHAT DECISION MIGHT BE MADE ON THE PROPOSAL, AND HE WOULD NOT WANT IN ANY WAY TO SPECULATE ON WHAT MIGHT BE DONE OFFICIALLLY. HOWEVER, SPEAKING ON BASIS OF PERSONAL FREINDSHIP, HE WISHED TO SAY THAT SAG HAD NO DIFFICULTY IN ENTERING THE CAPITAL MARKETS IN THE U.S., AND IT WAS OBVIOUS THAT THEY WOULD HAVE TO CONTINUE TO DO SO IN INCREASING AMOUNTS. THE DEPTH OF THE MARKET WAS THE DETERMINING FACTOR AS TO WHERE THE MONEY WOULD GO EVENTUALLY. HE HAD EXPRESSED CONCERN EARLIER AT PARIS ABOUT SAG'S SEEMING TO FAVOR ANY ONE OUTLET, AND THIS WAS STILL HIS CONCERN. ECONCOUNSELOR POINTED OUT THAT PROBLEM WAS ONE OF SHORT-TERM VERSUS ASSURED LONG-TERM TURNOVERS OR TERM DEPOSITS. BANKERS OF THE WEST COULD NOT CONTINUE TO LOAN LONG AND BORROW SHORT WITHOUT SERIOUS CONSEQUENCES TO THE CAPITAL MARKET.

3. GOVERNOR ALI SAID THAT THERE WAS ASSURANCE OF CONTINUED FLOW OF FUNDS INTO THESE ACCOUNTS FROM THE VERY NATURE OF HOW THEY WERE BEING CREATED. IN ANY CASE, HE COULD NOT AFFIRM THAT SAG WOULD NOT MAKE SOME DECISION TO GO INTO TREASURY ISSUES; POINT WAS THAT SAG ALREADY HAD GONE INTO FANNIE MAE MEDIUM-TERM MAKRET IN THE U.S., WAS BUYING TREASURY ISSUES THROUGH BROKERS, AND WAS ENTERING THE STOCK MARKET, ALBEIT VERY CAREFULLY, CAUTIONING THEIR DEALERS TO PICK AND CHOOSE WITH CARE SINCE THEY WERE BEING TESTED.

4. EMBASSY WILL AWAIT FURTHER DEVELOPMENTS IN THE IMEDIATE FUTURE AS PROMISED BY ABA AL-KHAYL (REFTEL). HOWEVER, IT SEEMS LIKELY THAT ADVICE BEING GIVEN BY TECHNICIANS REMAINS AS BEFORE: STAY IN CD'S AND OTHER SHORT-TERM INSTRUMENTS IN EUROPE AND AMERICA ON A CONTINUING AND ASSURED BASIS, BUY TREASURY AND OTHER ISSUED THROUGH COMMERCIAL BROKERAGE OUTLETS AND AS ORDINARY INVESTORS
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MIGHT DO, AND MAKE SOME INVESTMENTS IN MEDIUM AND LONG TERM. TECHNICIANS MAY PERSUADE SAG TO DO LITTLE OR NOTHING, ALTHOUGH POLITICAL FACTORS AND DESIRE TO BE FORTHCOMING TO NEW ADMINISTRATION MAY STILL MAKE SAG AMENABLE TO PROPOSAL FOR 100 TO 200 MILLION DOLLAR WEEKLY PURCHASE OF SPECIAL ISSUES.
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